



## **Report of the Audit Committee and Audit Program**

**July 2011**

**Janielle Lipscomb, Chair, MTC Audit Committee**  
**Rick DeBano, Vice Chair, MTC Audit Committee**  
**Les Koenig, Director, MTC Joint Audit Program**

The following report reflects the activities of the MTC Audit Committee and the Audit Program for 2010-2011 fiscal year.

### **\* AUDIT COMMITTEE \***

The Audit Committee met three times thus far in fiscal year 6/11. They first met on July 27, 2010 in Hood River, OR. There were 44 members, guests and staff present at the meeting. There were 32 individuals representing 20 Audit Program States present. There were 2 members of the public present at the meeting.

The Audit Committee reviewed the status of all the audits in progress. A discussion was held on 12 income tax and 2 sales tax audits that had significant issues. The Audit Committee expressed its satisfaction with the status of the audits in progress.

The Audit Committee conducted a round table discussion regarding audit leads and issues that individual states are experiencing.

The Audit Committee met a second time via a teleconference on November 17, 2010. There were 37 members, and staff present at the meeting. There were 33 individuals representing 22 Audit Program States present. Since this was a closed session meeting, there were no members of the public present at the meeting.

The Audit Committee reviewed the status of all the audits in progress. A discussion was held on 15 income tax and 4 sales tax audits that had significant issues. The Audit Committee expressed its satisfaction with the status of the audits in progress.

Since this was a teleconference the Audit Committee did not conduct a round table discussion of audits in the states that would normally been done. The meeting lasted 1 hour.

The Audit Committee met a third time in Kansas City on March 3, 2011. There were 40 members, guests, and staff present at the meeting. There were 31 individuals representing 20 Audit Program States present. There were 2 guests present during the open session.

The Audit Committee reviewed the status of all the audits in progress. A discussion was held on 11 income tax and 3 sales tax audits that had significant issues. The Audit Committee expressed its satisfaction with the status of the audits in progress.

The Audit Committee conducted a round table discussion regarding audit leads and issues that individual states are experiencing. The Committee also participated in a presentation on uncertain tax positions given by Professor Richard Harvey.

## **\* AUDIT PROGRAM \***

### **PRODUCTIVITY**

Audit Program completed 6 income tax audits and parts of 4 other income tax audits for fiscal year end 6/11. The Audit Program also completed 5 and parts of 5 sales audit for the same period. There are 20 income and 28 sales tax audits in progress. There were several income and sales tax cases that were delayed by the taxpayers due to turn over in their tax staffs or taxpayers being sold.

The MTC Audit Program proposed assessments of \$83,501,595 for income tax and \$12,603,148 for sales tax.

The Commission's Audit Manuals for income and sales tax manuals are posted on the Commission's web site.

### **STAFFING**

The proposed budget for fiscal year end 6/12 allows the Audit Program to fill the income tax auditor vacancy and creates one additional auditor position. The hiring process for these two positions will begin in August 2011. A

decision on whether to hire an additional income or sales tax auditor has not yet been determined.

## **TRAINING**

Jeff Silver and Les Koenig participated as instructors in an income tax course in South Carolina in October, 2010. Jeff Silver and Larry Shinder conducted an income tax class in Boston in March 2011. Bob Schauer conducted a sampling class in Chicago and a computer assisted auditing class in Wyoming during the last quarter of fiscal year 6/11.

**TRENDS IN PRODUCTIVITY**  
**MTC JOINT AUDIT PROGRAM**  
**AUDIT HOUR ANALYSIS**  
**6/95 - 6/11**

	6/95	6/96	6/97	6/98	6/99	6/00	6/01	6/02	6/03	6/04	6/05	6/06	6/07	6/08	6/09	6/10	6/11
Income Tax Total Audits	9	9	10	9	7	10	8	7	8	7	7	9	7	7	3	6	6
Total States Audited	99	111	152	120	186	251	131	166	165	266	196	175	141	209	79	152	309
Total Hours	9284	7548	12249	10012	10060	13133	8684	9396	10556	12012	12617	12514	9361	17570	6440	10445	25649
<b>Average Hours Per State</b>	<b>94</b>	<b>68</b>	<b>81</b>	<b>83</b>	<b>55</b>	<b>52</b>	<b>66</b>	<b>57</b>	<b>64</b>	<b>45</b>	<b>64</b>	<b>72</b>	<b>66</b>	<b>84</b>	<b>81</b>	<b>69</b>	<b>83</b>
Sales Tax Total Audits	15	13	14	10	16	11	14	13	11	10	11	6	15	9	10	12	5
Total States Audited	152	123	143	97	184	102	158	159	145	154	160	77	187	97	120	147	65
Total Hours	8009	9746	11349	7721	7438	9062	11900	8850	8792	10943	6133	4946	13296	7818	7265	10772	7200
<b>Average Hours Per State</b>	<b>53</b>	<b>79</b>	<b>79</b>	<b>80</b>	<b>40</b>	<b>89</b>	<b>75</b>	<b>56</b>	<b>61</b>	<b>71</b>	<b>38</b>	<b>64</b>	<b>71</b>	<b>80</b>	<b>61</b>	<b>73</b>	<b>110</b>
Total Both Taxes Total Audits	24	22	24	19	23	21	22	20	19	17	18	15	22	16	13	18	11
Total States Audited	251	234	295	217	370	353	289	325	310	420	336	252	328	306	199	299	374
Total Hours	17293	17294	23598	17733	17498	22195	20584	18246	19348	22955	18750	17460	22657	25388	13705	21217	32849
<b>Average Hours Per State</b>	<b>69</b>	<b>74</b>	<b>80</b>	<b>82</b>	<b>48</b>	<b>63</b>	<b>71</b>	<b>56</b>	<b>62</b>	<b>55</b>	<b>56</b>	<b>70</b>	<b>69</b>	<b>83</b>	<b>69</b>	<b>71</b>	<b>88</b>

**AUDIT HOURS WORKED  
PER QUARTER**

	<b>9/10</b>	<b>12/10</b>	<b>3/11</b>	<b>6/11</b>	<b>Total</b>
<b><i>Income Tax Total</i></b>					
Audits in Process	22	22	25	20	N/A
Total State Returns Under Audit	343	343	390	311	N/A
Total Income Audit Hours per Quarter	3827	3310	3891	3927	14955
<b><i>Sales Tax Total</i></b>					
Audits in Process	31	32	30	28	N/A
Total State Returns Under Audit	377	389	356	337	N/A
Total Sales Audit Hours per Quarter	2751	2325	2776	2813	10665
<b><i>Total Both Taxes</i></b>					
Audits in Process	53	54	55	48	N/A
Total State Returns Under Audit	720	732	746	648	N/A
Total Audit Hours Both Taxes	6578	5635	6667	6740	25620